

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis

---

The management of the city of Milton-Freewater, Oregon, presents this narrative overview and analysis to facilitate both a short and long-term analysis of the financial activities of the City for the fiscal year ended June 30, 2004. This Management's Discussion and Analysis (MD&A) is based on currently known facts, decisions, and conditions that existed as of the date of the independent auditors' report. Additional information outside the scope of this analysis can be found in the Letter of Transmittal. This is the second year the City is reporting under the provisions of GASB 34. This is the first year prior year information is available; a comparative analysis of government-wide data is being presented.

### Financial Highlights

- The City's Governmental Activities net assets at June 30, 2004, increased \$464,170 from the prior year.
- The City's Business Activities net assets increased \$161,561 from the prior year.
- The General Fund's unreserved fund balance is \$803,377 at the end of the current fiscal year.
- The City's cash and cash equivalents as of June 30, 2004, are \$6,023,861.
- The City's 2003 budget was \$21,599,358 with \$4,771,154 in contingency and reserve funds.
- This fiscal year the City's staff wrote grants and the City was awarded \$170,194 in grant money for use on ancillary projects.

### Overview of the Financial Statements

The following discussion and analysis is intended to serve as an introduction to the City's basic financial statements and other required supplementary information. The City's basic financial statements are comprised of three components:

1. Government-wide financial statements
2. Fund financial statements
3. Notes to the basic financial statements

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The Statement of Net Assets presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenue (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include the following:

Finance  
Fire  
Library  
Human Resources  
Planning and Economic Development  
Police and Emergency Communications  
Public Works

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

The Business-type activities of the City include the following:

- Electric Utility
- Water Utility
- Sewer Utility
- Solid Waste Utility
- Golf Course

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate Urban Renewal Agency (URA) for which the City is financially accountable. Although legally separate, the URA's governing body is identical to the City's, and because the services of the URA are exclusively for the benefit of the City, it is included as an integral part of the primary Government.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City uses fund accounting to ensure and demonstrate compliance with finance related legal requirements. All of the funds of the City can be divided into two categories: governmental funds and proprietary funds.

Governmental funds. Governmental funds are used to account for activities where the emphasis is placed on available financial resources, rather than upon net income determination. Therefore, unlike the government-wide financial statements, governmental fund financials focus on the acquisition and use of current spendable resources, as well as the balances of spendable resources at the end of the fiscal year. The City maintains 12 individual governmental funds with the information presented separately for General, Special Revenue and Debt Service Funds. Please see the NOTES TO FINANCIAL STATEMENTS for further explanation of each individual fund.

Proprietary funds. Proprietary funds are used to account for activities where the emphasis is placed on net income determination. The City maintains two different types of proprietary funds – enterprise and internal service funds. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The city uses internal service funds to account for warehouse, fleet management, and risk and benefits management. Please see the NOTES TO FINANCIAL STATEMENTS for further explanation of each individual fund.

Notes to the financial statements. The notes provide additional information that is essential for a full understanding of the financial statements. They are an integral part of the financial statements and should be read in conjunction with them.

### GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the City, assets exceeded liabilities by \$3,610,078 at June 30, 2004. This figure includes \$2,228,987 invested in capital assets, \$133,781 reserved for debt service and community development, and \$1,221,234 of unrestricted funds. This does not account for all governmental infrastructure, which will be fully capitalized by June 30, 2007.

Total liabilities of \$2,954,930 includes current liabilities of \$317,464 and noncurrent liabilities of \$2,637,466. For a more detailed breakdown please see the Statement of Net Assets.

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

### FUND-BASED FINANCIAL STATEMENTS

#### General Fund

The General Fund ended the year with a fund balance of \$806,254. Revenue for fiscal 2004 was \$2,165,047. This is a .10% increase over last year. The increase was mainly due to an increase in property tax revenue and franchise fees. Intergovernmental revenue was down because the state has cut some of the city's funding. The ending fund balance was \$108,435 higher than last years \$697,819.

Franchise fees are a consistent revenue source for this fund, rather than property taxes. Since the franchise fees for the utilities are collected monthly based on that month's revenue, the City enjoys a relatively stable cash flow. It is not heavily dependent upon property tax revenue. Revenue sources are as follows:

Property taxes	\$ 683,920	31.6%
Utility tax	128,151	5.9
Intergovernmental	151,535	7.0
Franchise fees	763,693	35.3
Fines and licenses	160,141	7.6
Services	168,187	7.8
Interest	12,315	0.6
Miscellaneous	<u>97,105</u>	<u>4.2</u>
Total	<u>\$2,165,047</u>	<u>100.0%</u>

Expenditures for the fiscal year were \$3,570,436.

The operation of the General Fund can be summarized as follows:

Beginning fund balance	\$ 697,819
Revenue	2,165,047
Transfers in	<u>1,618,548</u>
	<u>4,481,414</u>
Expenditures	3,570,436
Transfers out	<u>104,724</u>
	<u>3,675,160</u>
Fund balance June 30, 2004	<u>\$ 806,254</u>

Expenditures were as follows:

Public Safety	\$1,491,180	41.8%
General Government	1,144,181	32.0
Culture and Recreation	380,055	10.7
Public Works	389,763	10.9
Community Development	86,603	2.4
Engineering and Planning	<u>78,654</u>	<u>2.2</u>
Total	<u>\$3,570,436</u>	<u>100.0%</u>

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

### Special Revenue Funds

The City of Milton-Freewater has seven Special Revenue Funds, including one component unit. Special Revenue funds are used to account for revenue from earmarked sources, which by law are designated to finance particular functions of the government. A description of these funds follows.

Street Fund. This fund controls the revenue which must be spent on streets, primarily from State gas tax revenue. In order to assure that the 24 miles of the street system are maintained in a safe, clean, well prepared manner.

Street Improvement Fund. This fund accounts for revenue from street opening permits which will be used for major street repairs at a later date.

Library Fund. In 1989, the voters approved a special library district to fund the libraries in our county. The Umatilla County Special Library District levies the taxes and distributes them to the libraries. This fund accounts for those and other library revenue.

Senior/Disabled Transportation Fund. The City has been running a senior citizen transportation program for over 20 years. The program during this last year, allowed seniors and disabled persons who live within city limits of Milton-Freewater to purchase an unlimited number of taxi tickets for \$1 each. The cost to seniors and disabled persons living outside the city limits is \$2 per ticket. This charge helps supplement the funds necessary to operate the program due to increased taxi contract costs. Revenue also came from one state grant and one county grant.

Drug Enforcement Fund. This fund's revenue source is from revenue received from other agencies for the City's participation in reducing drug crimes.

Urban Renewal Agency. This component unit's special revenue fund was created to improve property values, create jobs, and promote business expansion. The agency acts under a Board of Directors, which are the City Council members. Additional information regarding the component unit may be found in the Financial Statement Notes.

### Debt Service Fund

The City's General Obligation Bonded Debt at June 30, 2004, is \$1,105,000. During this fiscal year, \$70,000 in bonds was retired. The General Obligation Bonded Debt is as follows:

Fire Equipment and Station	Issued 10/01/89	\$ 10,000
Family Aquatic Center	Issued 08/01/95	1,095,000

Current bonded debt is 27.1% of the bonded debt allowable. The fire protection bond issue was passed by voters May 16, 1989, for \$193,000 and issued October 1989. The Family Aquatic Center bond issue was passed by voters May 16, 1995, and issued August 1, 1995, for \$1,500,000. Additional general obligation bonds with a value of \$3.5 million could be sold within the legal debt limit if approved by the voters.

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

### Enterprise Funds

The City operates four major utility services and a golf course in Milton-Freewater. These funds are operated like private enterprises, and the accounting reflects this. Following are the significant highlights for each.

Electric Fund. The electric department is one of the oldest documented municipal systems still in operation in the United States. The hydro generating plant was first in service in 1888, and sold to the City of Milton about 1890. Daniel Franklin Brown was responsible for the installation of the plant, and remained the electric supervisor for the City until 1903. It is interesting to note his monthly salary was \$50.00, and that his pay was docked for any time the electrical plant was not in production. Although none of the original equipment is now functional, the City still maintains the pioneer spirit of the original crew to bring its citizens low-cost dependable power.

Electric Funds financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$7,172,458	\$6,304,261	13.77 %
Operating expenses	<u>6,202,937</u>	<u>6,025,783</u>	2.93
Operating income (loss)	969,521	278,478	248.14
Nonoperating revenue (expenses)	43,939	150,238	(70.75)
Net operating transfers	<u>(709,355)</u>	<u>(653,884)</u>	8.48
Net income (loss)	\$ 304,105	\$ (225,168)	235.05 %

Colder weather generates increased sales, which increases revenue. It also increases the expenses at a greater proportion due to BPA's rate structure. The City charges the same rates all year long, however, BPA has a higher rate for winter months than they do for summer months. The Electric Department rebuilt and energized the Milton Substation during this last year. The Electric Department purchased and installed a new SCADA system with a station in the Water Department. In the SCADA system, spread-spectrum radios were installed for communication and also new connections to the fiber optic network were made.

Electric Replacement Fund. This fund was created to set aside funds from the Electric Fund to pay for major replacement costs.

Electric Operating and Maintenance Fund. This fund was created to set aside funds from the Electric Fund to assure sufficient revenue is available to pay for unanticipated operating or maintenance costs.

Water Fund. The water system consists of seven City-owned wells and approximately 40 miles of mains.

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 916,798	\$ 871,784	5.16 %
Operating expenses	<u>520,798</u>	<u>533,005</u>	(2.29)
Operating income (loss)	396,000	338,779	16.89
Nonoperating revenue (expenses)	(84,294)	(88,176)	4.40
Net operating transfers	<u>(371,742)</u>	<u>(338,058)</u>	(9.96)
Net income (loss)	\$ (60,036)	\$ (87,455)	31.35 %

A rate increase was approved this year to help this fund get a positive net income to offset increased expenses due mainly to increased energy costs to run wells.

Sewer Fund. The sewage control system consists of approximately 26 miles of gravity flow collector lines. The system has been in place since 1947.

Sewer Funds financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 845,318	\$ 837,621	.91 %
Operating expenses	<u>590,905</u>	<u>492,310</u>	20.02
Operating income (loss)	254,413	345,311	(26.32)
Nonoperating revenue (expenses)	(42,549)	277,985	(115.30)
Net operating transfers	<u>(298,016)</u>	<u>(273,513)</u>	8.95
Net income (loss)	\$ (86,152)	\$ 349,783	(124.63)%

The main difference between this year and last year is intergovernmental income from the state for sewer plant improvements.

Sewer Improvement Fund. This fund was created to set aside funds from the Sewer Fund to pay for system improvements that are currently taking place at the sewer treatment plant.

Solid Waste Fund. The Solid Waste Fund handles city-wide collection of solid waste, and the operation and maintenance of the landfill. The landfill is located about 3.2 miles west of the City, and is no longer open to the public in order to control waste tonnage.

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 533,539	\$ 446,409	19.51 %
Operating expenses	<u>367,472</u>	<u>402,642</u>	(8.73)
Operating income (loss)	166,067	43,767	279.43
Nonoperating revenue (expenses)	38	645	(94.10)
Net operating transfers	<u>(145,799)</u>	<u>(90,447)</u>	61.19
Net income (loss)	\$ 20,306	\$ (46,035)	144.10%

The City expects the costs of waste disposal and waste recycling to continue to increase as governmental mandates are put into law.

Landfill Closure Fund. This fund was created to set aside funds from the Landfill Fund to pay for closure costs as required. The fund equity is now \$63,533.

Golf Course Fund. This is the tenth year of operation of the Golf Course Fund as an enterprise fund. The course is an 18-hole par 60 located in the west center part of the City. Financial comparison to last year is as follows:

	<u>2004</u>	<u>2003</u>	<u>% increase (decrease)</u>
Operating revenue	\$ 219,916	\$ 224,118	1.87 %
Operating expenses	<u>198,485</u>	<u>189,749</u>	4.60
Operating income (loss)	21,431	34,369	(37.64)
Nonoperating revenue (expenses)	(17,938)	(12,065)	(48.67)
Net operating transfers	<u>(13,554)</u>	<u>(11,997)</u>	(12.98)
Net income (loss)	\$ (10,061)	\$ 10,307	(197.61)%

Golf Course Irrigation Fund. This fund was created to set aside funds from the Golf Course Fund to pay for a new irrigation system which was completed last fiscal year.

### Internal Service Funds

The City has five internal service funds. These funds are similar to enterprise funds because they are operated and accounted for like a private business. The only difference is the customers for these businesses are the different departments or funds of the City. Following are the highlights for each fund:

Warehouse Fund. The warehouse is located on Lamb Street and holds the inventory for all the utility funds. This fund was established to correctly allocate the costs of running the warehouse to those funds that use the service. The warehouse purchases all inventories that are charged to the Warehouse Fund. The utilities then requisition inventory from the warehouse and are charged for the inventory purchased at that time.

# City of Milton-Freewater, Oregon

---

## Management's Discussion and Analysis (continued)

---

Vehicle Maintenance Fund. This fund tracks the cost of maintaining the City's vehicles, and allocates those costs to the actual users. All revenue from this fund is from intra-city charges with the exception of revenue generated by a contract to service buses operated by School District #7 and interest. Vehicle rates are reviewed annually during budget preparation to ensure that all costs of maintaining the vehicles are charged accordingly to each user.

Vehicle Replacement Fund. Part of the rental rate charged on each vehicle is depreciation and an inflation factor for the vehicle. This portion of the rate is kept in this fund and used to replace the vehicles when scheduled. This portion of the rent previously was included in the vehicle maintenance fund, but it was hard to keep the replacement funds separate from the repair funds. Consequently, some replacement money was used to make repairs to keep the rates low. This fund's purpose is to ensure that timely replacement of vehicles will be possible.

Sick Leave Liability Fund. Only sick leave earned in the current year is budgeted for. This leaves all the previous year's sick leave balance as a possible unfunded liability. This fund collects money to fund a portion of leaves that are not budgeted for. It is the intention of the City to let the interest accumulate, and add to the principal until the full amount of sick leave liability is covered. The City used \$1,740 of these funds during the fiscal year 2004. The fund equity is now \$95,729.

Risk Management Fund. This fund's revenue source is primarily the reimbursement from City County Insurance that are in excess of funds needed to cover outstanding insurance liabilities.

## FINANCIAL RECAP

### Governmental Activities

The City's Governmental Activities net assets increased \$535,570 from the prior year. The General Funds ending fund balance increased \$108,439 from \$697,815 to \$806,254. Cash has increased, mainly due to property taxes and special assessments.

### Business-type Activities

The City's Business Activities net assets increased \$161,561 from the prior year. Bonneville Power has raised electric rates to the City each of the last four years for an approximate increase of 55%. The City has passed some of this increase to its customers by increasing the rate approximately 23%. In an effort to keep the City's utility costs to our customers as low as possible, there is no increase in electric rates this year. This has caused a decrease in ending fund balances. The Electric utility spent \$642,888 on capital additions this year, including rebuilding the Milton Substation.

### Budgetary Highlights

In the General Fund property taxes and assessment income is 15% or \$105,400 higher than budgeted. With the fear of Sykes a local operating call center closing, the budgeted amount was very conservative. Thankfully Sykes is still in business. The City's 2004 budget was \$21,599,358 with \$4,771,154 in contingency and reserve funds.

As stated above, this is the second year the City is reporting under GASB 34. The City's financial statements are designed to present users with a general overview of the City's finances and to demonstrate the City's accountability. If you have any questions about this report please contact the City's finance director, Dave Richmond at 722 S. Main, Milton-Freewater, Oregon 97862.